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SUBJECT: AND NOW FOR SOMETHING COMPLETELY DIFFERENT:
DE-HUBBING MILAN'S MALPENSA

REF: 07 MILAN 273

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Summary

¶1. (SBU) Alitalia cuts at Milan's Malpensa go into full force as of April 1, 2008. Flight reductions of over 25 percent of Malpensa's traffic and more than one third of its intercontinental routes will have an immediate, significant impact on the region's economy starting with job cuts of at least 1,300. Future prospects for rebuilding service are somewhat promising but will take years. Entrenched union interests and a lack of political will to make difficult decisions has led to the current situation: a drastic cutback of economically valuable and growing intercontinental routes at Malpensa to keep Alitalia out of bankruptcy long enough for it to be sold. End summary.

Immediate Impact

¶2. (SBU) On January 31, Alitalia gave final notice to Assoclearance (Italy's flight clearance agency) to cancel 793 weekly flights from Milan's Malpensa airport from April 1, ¶2008. This represents sixty-four percent of Alitalia's current 1,238 flights from Malpensa. Before the cuts, Alitalia accounted for over half of Malpensa's traffic. Media reports quote passenger losses for Malpensa between 6.5 and 8 million per year. SEA, the management company for Malpensa and Linate airports, did not renew the contracts of 230 workers as of January 31 and will not renew another 700 when their contracts are up at the end of March. SEA expects cuts to reach a total of 1,300 over the next few months. This first tranche will consist of employees eligible for retirement or other temporary government assistance. Future cuts will be more painful. Unions estimate up to 4,000 job losses total, while the Lombardy Region claims 7,000 in the greater Milan area if SEA, Alitalia, taxi and hotel workers are all taken into account. Both near and longer term financial losses to area businesses and commercial fairs due to the lack of intercontinental connections are difficult to calculate, though observers agree they will be significant.

The immediate impact on U.S. travelers is the loss of direct flights to/from Boston, Chicago, Miami and Newark.

Two-Year Tumble

¶3. (SBU) SEA President Giuseppe Bonomi was relatively upbeat in discussions with the Consul General, noting SEA was mounting an aggressive effort to attract other carriers and continuing airport infrastructure upgrades. However, he was clear that Malpensa's development was based on the hub model and would need to find a new majority carrier. While hopeful this could be accomplished in the medium term because of interest from Italian carrier AirOne and a lack of excess capacity throughout Europe, he acknowledged the next two years, at a minimum, would be abysmal. The tight markets for airplane purchases could further delay the ramp up of another carrier at Malpensa, especially for long haul routes. A two to three year lack of direct intercontinental connectivity could significantly alter business patterns in Northern Italy, creating a drag on the local and regional economies.

Future Prospects

¶4. (SBU) SEA will reportedly sue Alitalia for damages of one billion euros stemming from infrastructure improvements requested by Alitalia to support its Malpensa hub operations (requested as recently as June 2007, a week before the decision to drastically cut flights at Malpensa was made public). AirOne is appealing the GOI's decision to pursue exclusive negotiations with Air France with the Regional Court of Lazio. Major financial players such as Banca Intesa-San Paolo and wealthy area businessmen have publicly

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expressed willingness to finance an AirOne expansion at Malpensa. SEA will push for government assistance to liberalize air service agreements with other countries to allow additional flights on popular routes such as Dubai. SEA sees great potential in increased cargo operations, but this is limited by Italian Customs staffing patterns (only open during normal business hours 5 days a week). American Airlines is expected to pick up Alitalia's vacated flight to Newark.

Comment: Costs of Government Inaction

¶5. (SBU) Alitalia's dire financial straits have been evident for years. Alitalia launched numerous "rescue plans" over the years, with all but the most recent calling for expanded service and an increased focus on the Malpensa hub. Entrenched union interests and a lack of political will to make difficult decisions has led to the current situation: a drastic cutback of economically valuable and growing routes (Alitalia's Malpensa intercontinental flight passengers grew nine percent from 2006 to 2007) to keep Alitalia out of bankruptcy long enough for it to be sold. End comment.
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